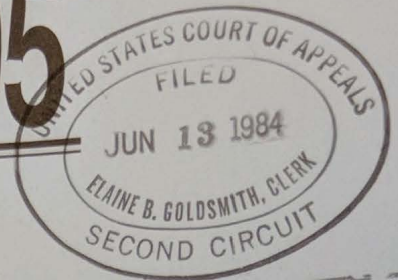


84-7095



United States Court of Appeals  
FOR THE SECOND CIRCUIT

UNIVERSAL CITY STUDIOS, INC.,

*Plaintiff-Appellant,*

—against—

NINTENDO CO. LTD., NINTENDO OF AMERICA, INC.,

*Defendants-Appellees.*

ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE SOUTHERN DISTRICT OF NEW YORK

**SUPPLEMENTAL BRIEF OF PLAINTIFF-APPELLANT  
ON THE DISTRICT COURT'S  
RULE 54(b) DETERMINATION**

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UNITED STATES COURT OF APPEALS  
FOR THE SECOND CIRCUIT

84-7095

---

UNIVERSAL CITY STUDIOS, INC.

Plaintiff-Appellant,

-against-

NINTENDO CO. LTD., NINTENDO OF AMERICA, INC.,

Defendants-Appellees.

---

ON APPEAL FROM THE UNITED STATES DISTRICT  
COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

---

SUPPLEMENTAL BRIEF OF PLAINTIFF-APPELLANT  
ON THE DISTRICT COURT'S RULE 54(b) DETERMINATION

Appellant Universal City Studios, Inc. ("Universal") submits this brief in response to the request by the panel of the Court of Appeals that heard oral argument of this appeal for briefs on the question, "whether the district judge abused his discretion in entering final judgment in fewer than all of the claims, under Rule 54(b) of the Federal Rules of Civil Procedure." (A copy of the written request is annexed hereto as Exhibit A.)

FACTS RELEVANT TO THE DISTRICT  
COURT'S RULE 54(b) CERTIFICATION

When the district court granted defendants' motion for summary judgment on December 22, 1983, it still had pending

before it five counterclaims by Nintendo of America, Inc. ("Nintendo")<sup>1</sup> seeking damages from Universal on legal grounds separate and distinct from those which underlie the § 43(a) Lanham Act, common law unfair competition and statutory dilution claims of Universal's complaint. Nintendo did not seek summary judgment on any of these, presumably because it recognized that the allegations it would have to prove to establish a basis for recovery, i.e., that Universal's actions (in licensing Tiger Electronics, Inc. to sell a KING KONG home video game) were in "willful and reckless disregard" of Nintendo's rights (First Counterclaim, A42), that they (in threatening suit against Coleco Industries, Inc. for trademark infringement) constituted "intentional interference with contractual relations" (Second Counterclaim, A47), "intentional misappropriation" of its rights in Donkey Kong (Third Counterclaim, A48) and intentional interference with Nintendo's present and prospective business relations (Fourth and Fifth counterclaims, A50-51) all raised disputed issues of fact that would have defeated any such motion.<sup>2</sup>

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<sup>1</sup> No counterclaims were alleged by Nintendo Co. Ltd., the Japanese parent company.

<sup>2</sup> At the oral argument of this appeal, counsel for Nintendo, responding to a question by Judge Friendly, acknowledged that the counterclaims turned on "issues which have not been explored, have not been addressed and would indeed have resulted in disputed facts." (Transcript of Oral Argument, May 23, 1984, at 25.)

The court was obviously aware that unless settlement of the counterclaims was reached as a consequence of its dismissal of the main claims, they would have to be tried, regardless of whether it certified its dismissal of Universal's complaint as final under Rule 54(b) or whether it delayed entry of a final judgment until the entire case was resolved -- and irrespective of the outcome of an appeal no matter when it was taken. Given that the dismissal of Universal's infringement claims had been predicated in part on rulings that (a) Universal had not acquired valid trademark rights in the KING KONG name and character from RKO General, Inc. and Richard Cooper and (b) the name and character KING KONG lacked secondary meaning and could not function as a trademark (A175-183), it is plain why Judge Sweet made the requisite Rule 54(b) determination enabling Universal to take its appeal immediately. The court's holding on the trademark rights issue, whether correct or not, has an immediate and substantial adverse impact on Universal's existing KING KONG trademark licensing program and seriously impairs Universal's present ability to develop commercially projects that depend in large part on the use of the KING KONG name. Thus, when Universal requested the court by letter on December 29, 1983 to direct the entry of a final judgment upon the express determination that "there is no just reason for delay" as required by Rule 54, the court was prepared to do so. (A copy of this letter is annexed as Exhibit B.) Counsel for Nintendo concurred that a Final Order should be entered, the



court subsequently gave the proper certification (A197) and this appeal followed.<sup>3</sup>

At the outset, it is fair to assume familiarity on Judge Sweet's part with the legal standard by which his discretion to make a Rule 54(b) determination was governed. The same court had several years earlier denied that request for such a determination (by the losing party on a summary judgment motion) in H.L. Moore Drug Exchange v. Eli Lilly & Co., 457 F. Supp. 75, 77 (S.D.N.Y. 1978), with Judge Sweet referring to the "strong federal policy against piecemeal review" and noting how this mandates that district courts make the express determination required for an appellate order only in the infrequent case in which a failure to do so might have a harsh effect. The court weighed these considerations on the facts before it and found there that the danger of hardship or injustice which a delayed appeal would cause was insufficient to offset that policy.<sup>4</sup>

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<sup>3</sup> In retrospect it would have been better practice for the district court to give a written statement of its reasons for making the Rule 54(b) determination. But the fact that the court was acting in response to a letter from Universal's counsel, and not pursuant to a formal motion, probably accounts for this omission. See Cullen v. Margiotta, 618 F.2d 226, 228 (2d Cir. 1980).

<sup>4</sup> The court cited this Court's decision in Campbell v. Westmoreland Farms, Inc., 403 F.2d 939 (2d Cir. 1968), which although rendered prior to the Supreme Court's more recent decision on Rule 54(b) in Curtiss-Wright Corp. v. General Electric Co., 446 U.S. 1 (1980) (discussed *infra*), provided guidance on the controlling legal standards.



The problem confronting Universal if it were denied the ability to take an immediate appeal from the court's rulings below was more serious than that of the appellant in Moore, and given that Nintendo's counterclaims did raise issues dissimilar from those of Universal's complaint on which the appeal would be taken, there was no likelihood here that the same issues would be presented for review "piecemeal" -- or that any future trial of those counterclaims would moot the issues Universal was raising on the appeal.

What hardship would delaying entry of a final order have imposed on Universal? If the lower court had simply dismissed Universal's complaint against Nintendo on the ground that Donkey Kong was not confusingly similar to Universal's trademark in the name KING KONG, probably none. A summary dismissal on that basis alone would have affected Universal's rights against Nintendo and those Nintendo licensees Universal had threatened with suit; such a ruling would not, however, have had any other impact. But the consequence of Judge Sweet's first ruling that Universal did not have valid trademark rights in the KING KONG name or gorilla character was of a different and more immediate order.

Universal makes the point in its opening brief (Brief for Plaintiff-Appellant at 23) as to how it licensed KING KONG as a trademark since 1980. It referred in its argument against

summary judgment below and on this appeal to its KING KONG merchandising programs, its substantial investment in a KING KONG tour attraction at its studio facilities in Los Angeles, its KING KONG film projects and its ongoing efforts to license the KING KONG name for various commercial ventures. ( See Brief for Plaintiff-Appellant at 12-13, 23.) All of these commercial projects were immediately put in jeopardy by the lower court's ruling adverse to Universal on the KING KONG rights issue -- and Universal's concern is not hypothetical. Within weeks, for example, after the lower court's decision, Coleco Industries, Inc. ("Coleco"), a Nintendo licensee with rights to sell an electronic table-top and home video version of Donkey Kong, which had earlier settled with Universal in May 1982 in exchange for the payment of royalties on sales of Donkey Kong games, stopped paying royalties and filed suit seeking rescission of its agreement on the theory that Universal wrongfully represented the status of its trademark in KING KONG.<sup>5</sup>

Judge Sweet was well aware when he made the Rule 54(b) determination that Universal had compelling reasons for wanting to take its appeal immediately. But it is also evident when one reviews the claims that Universal pleaded against Nintendo in its complaint and are presented for review on this appeal and

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<sup>5</sup> That action, 84 Civ. 2596, has already been assigned to Judge Sweet.

compares these to the counterclaims that have been preserved for trial that the Rule 54(b) certification will not result in unnecessary appellate review of any issues and is not inconsistent with the interests of judicial administration.

The claims Universal pleaded against Nintendo and which Judge Sweet dismissed on the summary judgment motion raised (in the context of the way Nintendo defended against them) two issues: (a) whether and to what extent Universal owned valid trademark rights in the name and character KING KONG and (b) whether, assuming that it did, Nintendo's Donkey Kong was sufficiently close in appearance and name to be likely to cause ordinary consumers to be confused about the origins of Donkey Kong. Neither of these issues will again be presented for appellate review in the event a subsequent appeal should follow from the lower court's eventual disposition of Nintendo's five counterclaims, and by accepting the lower court's Rule 54(b) determination under these circumstances this Court is not resolving any issue that could be rendered moot by the ultimate disposition of any of those counterclaims. A brief review of the counterclaims shows why.

(a) In its First Counterclaim (A42), Nintendo alleges that its Donkey Kong arcade game incorporates original audiovisual material constituting copyrightable subject matter. Nintendo then goes on to allege that the KING KONG home video game manufactured and sold by Universal's authorized KING KONG

licensee, Tiger Electronics, Inc. ("Tiger"), infringes Nintendo's copyrighted audio-visual material in Donkey Kong and alleges that since Universal licensed Tiger to use the KING KONG name and gorilla character in the infringing KING KONG game, Universal is a contributory copyright infringer, accountable to Nintendo for damages and profits realized on sales of the Tiger games. Universal submits that this is a copyright claim, the outcome of which will turn on whether (a) Tiger's KING KONG game is substantially similar in copyrightable expression to the Nintendo Donkey Kong game and (b) Universal's licensing of the KING KONG name and gorilla for that game make it a contributory infringer. In either case, the legal issues are separate, distinct and independent of the trademark claims before this Court on Universal's appeal. Cf. Frederick Warne & Co. v. Book Sales, Inc., 481 F. Supp. 1191 (S.D.N.Y. 1979).

(b) Nintendo's Second Counterclaim (A45) seeks recovery for damages based on Universal's alleged "intentional interference with contractual relations," the crux of the claim being that by signing a covenant not to sue agreement with Coleco, Universal intentionally caused Coleco to breach material provisions of the latter's Donkey Kong licensing agreement with Nintendo. While it would be fair to say that a ruling by this Court reversing Judge Sweet's holding that Universal could not assert valid trademark rights in KING KONG would undercut but

not eliminate Nintendo's basis for making this claim,<sup>6</sup> the converse of the proposition ( i.e., an affirmance of the lower court's ruling holding that Universal could not claim trademark rights in KING KONG) would not impair Universal's defense to the claim, this for the reason that Nintendo would still have to show that Universal lacked a good faith basis for asserting such rights. See Lucien LeLong, Inc. v. Dana Perfumes, 138 F. Supp. 575, 582 (N.D. Ill. 1955).

(c) Nintendo's Third Counterclaim (A47) pleads that Universal "wrongfully" held itself out as the owner of rights in Donkey Kong by entering into an agreement with Coleco under which Coleco agreed to pay Universal royalties on sales of Donkey Kong table-top electronic games and home video games in exchange for Universal's covenant not to sue. Nintendo claims that this was a willful and wrongful appropriation by Universal of Nintendo's rights and goodwill in Donkey Kong, constituting the tort of "intentional misappropriation of rights." Again, if

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<sup>6</sup> Nintendo's counsel made this point (obliquely) at the oral argument of the appeal, responding to a question by Judge Friendly asking whether, if the Court agreed with Nintendo on the confusing similarity issue, it had to address the other issues raised by Judge Sweet's decision. Counsel replied:

The other bases are significant [because] the only way where we have the predicate to do what we are continuing to do below in counterclaims is to press the fact that Universal . . . didn't have rights when it did what I am about to describe . . . .

(Transcript of Oral Argument, May 23, 1984, at 21.)

this Court were to reverse on the issue whether Universal has valid trademark rights in KING KONG (either by virtue of its assignment from Richard Cooper or because of continuous use and establishment of secondary meaning since 1980) it would make Nintendo's burden of showing that Universal had acted in bad faith or willful disregard of Nintendo's rights in threatening to sue Coleco more difficult, but it would not resolve the counterclaim, nor would it alter the legal showing Nintendo or Universal would have to make at trial.

(d) Finally, Nintendo's Fourth and Fifth Counterclaims (A49-53) plead intentional interference by Universal with Nintendo's Donkey Kong contractual relations (present and prospective). These also will turn at trial on Nintendo's ability to prove that Universal acted wrongfully vis-a-vis Nintendo's licensees in threatening suit for infringement over their distribution of Donkey Kong products. An affirmance by this Court of Judge Sweet's ruling on the KING KONG rights issue does not retrospectively make Universal's assertion of KING KONG rights against these licensees wrongful or an unlawful interference with contract, and correspondingly a reversal does not perforce mandate dismissal of the claims. In either event (and this is so with respect to all of Nintendo's counterclaims based on Universal's dealings with Nintendo licensees), the question whether Universal holds a valid trademark in KING KONG, as presented on this appeal, is raised in these proceedings only once, and its resolution will not be mooted by other

developments or the trial of the counterclaims. Universal submits that its appeal is properly before the Court at this juncture.

#### ARGUMENT

#### THE DISTRICT COURT DID NOT ABUSE ITS DISCRETION IN ENTERING FINAL JUDGMENT IN FEWER THAN ALL OF THE CLAIMS UNDER RULE 54(b) OF THE FEDERAL RULES OF CIVIL PROCEDURE

Rule 54(b) of the Federal Rules of Civil Procedure states in pertinent part:

When more than one claim for relief is presented in an action, . . . the court may direct the entry of a final judgment as to one or more but fewer than all of the claims or parties only on an express determination that there is no just reason for delay and upon an express direction for an entry of judgment.

The controlling legal authority is the Supreme Court's decision in Curtiss-Wright Corp. v. General Electric Co., 446 U.S. 1 (1980), where the Supreme Court held, as it had in Sears, Roebuck & Co. v. Mackey, 351 U.S. 427 (1956), that the district court must make two determinations before certifying a judgment as final under Rule 54(b): (a) that the judgment is "final" in the sense that the decision resolves a cognizable claim for relief and ultimately disposes of an individual claim in the course of an action involving multiple claims; and (b) that, having found finality, there is no just reason for delay. In exercising its discretion to make that determination,



the trial court must consider both the needs of judicial administration and the equities of the parties. 446 U.S. at 7-8.

The Court stated that it is appropriate in weighing and balancing these considerations to consider "whether the claims under review were separable from the others remaining to be adjudicated and whether the nature of the claims already determined was such that no appellate court would have to decide the same issues more than once even if there were subsequent appeals." Id. at 8.<sup>7</sup> Finally, the Court noted that the principal function of a reviewing court in Rule 54(b) cases is to scrutinize the trial court's evaluation of such factors as the interrelation of the claims so as to prevent piecemeal appeals. But once that judicial concern has been satisfied, the Court noted that the discretionary judgment of the district court should be given "substantial deference" because that court is the one most likely to be familiar with the case and with any justifiable reasons for delaying entry

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<sup>7</sup> The Court also noted that the existence of a non-frivolous counterclaim should not make Rule 54(b) certification inappropriate or present any special problems, citing Cold Metal Process Co. v. United Engineering & Foundry Co., 351 U.S. 445 (1956). Id. at 8 n.2.

of a final order. Id. at 10.8

There is, of course, no question in this case that under Curtiss-Wright the summary judgment below dismissing Universal's complaint in its entirety was a "final judgment," one adjudicating claims for relief separable from and independent of Nintendo's five counterclaims. Nor does the lower court's Rule 54(b) determination pose to this Court the problems it confronted in Brunswick Corp. v. Sheridan, 582 F.2d 175 (2d Cir. 1978), when the lower court entered a judgment on the appellant's antitrust counterclaims as final under Rule 54(b), permitting it to take an appeal on many of the very same issues that were pending before the court for trial in the form of antitrust defenses to a breach of contract claim. This Court's decision in that case held that the antitrust counterclaims on appeal and the defense made to the primary claim (which because of a mistrial had to be retried) were inextricably interrelated because the antitrust defense was largely the same as the antitrust counterclaim.<sup>9</sup>

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<sup>8</sup> The Supreme Court's holding in Curtiss-Wright has been read as liberalizing the prior Rule 54(b) standard. See Baden v. Koch, 79 Civ. 4296 (CSH) (S.D.N.Y. Dec. 13, 1982). The Baden court held that this Court's restrictive criterion that a Rule 54(b) certification can be made only in the infrequent harsh case, "cannot survive the Supreme Court's analysis in Curtiss-Wright." See also Skinner v. W. T. Grant, 642 F.2d 981, 984-85 (5th Cir. 1981); MCT Shipping Corp. v. Sabet, 497 F. Supp. 1078, 1083-84 (S.D.N.Y. 1980).

<sup>9</sup> The Court stated the crux of its dilemma as follows: "by entertaining the appeal from dismissal of the antitrust counterclaim we in effect would grant defendants an appeal from the judge's failure to charge their antitrust defense and the counterclaim itself ultimately depended on the interpretation of the contract clause on which the claim rested." 582 F.2d at 183.

The issues raised by Universal's appeal from the dismissal of its trademark and unfair competition claims are not inextricably interrelated to the claims made by Nintendo against Universal in any of its counterclaims. See Republic National Bank of New York v. Sabet, 79 Civ. 4290 (WCC) (S.D.N.Y. March 27, 1981, as amended April 6, 1981); compare Western Geophysical Co. of America, Inc. v. Bolt Associates, Inc., 463 F.2d 101, 103 (2d Cir.), cert. denied, 409 U.S. 1040 (1972). Nor will this Court's resolution of these issues at this juncture "have a tremendous impact" on the trial of those counterclaims, as the panel may have apprehended. ( See Transcript of Oral Argument, May 23, 1984, at 25-26.) Nintendo's copyright infringement claim derives solely from the allegation that the Tiger home video game on which Universal licensed the use of the KING KONG name and character is "substantially similar" in copyrightable expression to audio-visual components of Nintendo's Donkey Kong game. Irrespective of how this Court rules on the issue whether Donkey Kong is a trademark infringement of KING KONG, its disposition of the trademark infringement issue here will have no bearing on the ultimate disposition of Nintendo's copyright claim.

As for Nintendo's four other counterclaims, each of which derives from the proposition that Universal committed a legal wrong against Nintendo by threatening suit against Nintendo's Donkey Kong licensees for trademark infringement of

KING KONG and (in the case of Coleco) contracting not to sue in exchange for royalties, Nintendo has the burden at trial of proving that Universal acted wrongfully in asserting its trademark rights in KING KONG. Irrespective of how this Court resolves the issue regarding Universal's trademark rights in KING KONG, Nintendo will still have that burden at trial, and in any event there will be no occasion for this Court to review that issue on any subsequent appeal taken after the trial of the counterclaims. In short, Judge Sweet's Rule 54(b) determination in this case does not pose the specter of piecemeal appellate review nor is it inconsistent with the interests of judicial administration.

Finally, there are compelling equities in this case to support the lower court's exercise of discretion in making the judgment dismissing Universal's complaint final, thus enabling Universal to take its appeal immediately. If Universal were compelled to await the completion of discovery and the eventual trial of Nintendo's counterclaims before being able to appeal the lower court's holding to the effect that Universal did not have a valid trademark in the name KING KONG, its present ability to continue licensing the name KING KONG in merchandising and to exploit successfully its ongoing KING KONG commercial projects would be undermined. This is the consideration that tips the scales in favor of the Rule 54(b) determination and Universal submits that the lower court was acting within its discretion in making that determination.

CONCLUSION

For all the foregoing reasons, the district court did not abuse its discretion in entering final judgment in fewer than all of the claims under Rule 54(b) of the Federal Rules of Civil Procedure.

Respectfully submitted,

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June 13, 1984

ELAINE B. GOLDSMITH  
Clerk

UNITED STATES COURT OF APPEALS  
SECOND CIRCUIT  
UNITED STATES COURTHOUSE  
FOLEY SQUARE  
NEW YORK 10007

May 25, 1984

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405 Lexington Avenue  
New York, NY 10175

Re: Universal City Studios, Inc. v.  
Nintendo, Co., Ltd.  
Docket No. 84-7095

Dear Mr. Fairhurst:

In connection with the above-captioned appeal, the panel of the Court of Appeals which heard oral argument on May 23, 1984, has requested that counsel brief the question of whether the district judge abused his discretion in entering final judgment in fewer than all of the claims, under Rule 54(b) of the Federal Rules of Civil Procedure.

Your brief should not exceed 25 pages and is to be filed in the Clerk's Office on or before June 13, 1984.

Sincerely,

ELAINE B. GOLDSMITH, Clerk  
By

*Victoria C. Dalton*  
Victoria C. Dalton,  
Operations Manager

cc: Panel

Catherine E. Palmer, Esq.  
Mudge, Rose, Guthrie, Alexander & Ferdon

EXHIBIT A

UNITED STATES COURT OF APPEALS  
SECOND CIRCUIT  
UNITED STATES COURTHOUSE  
FOLEY SQUARE  
NEW YORK 10007

ELAINE B. GOLDSMITH  
Clerk

May 25, 1984

Catherine E. Palmer, Esq.  
Mudge, Rose, Guthrie, Alexander & Ferdon  
180 Maiden Lane  
New York, NY 10038

Re: Universal City Studios, Inc. v.  
Nintendo, Co., Ltd.  
Docket No. 84-7095

Dear Ms. Palmer:

In connection with the above-captioned appeal, the panel of the Court of Appeals which heard oral argument on May 23, 1984, has requested that counsel brief the question of whether the district judge abused his discretion in entering final judgment in fewer than all of the claims, under Rule 54(b) of the Federal Rules of Civil Procedure.

Your brief should not exceed 25 pages and is to be filed in the Clerk's Office on or before June 13, 1984.

Sincerely,

ELAINE B. GOLDSMITH, Clerk  
By

*Victoria C. Dalton*

Victoria C. Dalton,  
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cc: Panel

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December 29, 1983

## BY HAND

Honorable Robert W. Sweet  
United States District Judge  
United States District Court  
Southern District of New York  
Foley Square  
New York, New York 10007

Re: Universal City Studios, Inc. v.  
Nintendo Co. Ltd. and Nintendo  
of America, Inc., 82 Civ. 4259  
(RWS)

Dear Judge Sweet:

In the concluding paragraph of Your Honor's Opinion and Order of December 22, 1983 granting defendants' motion for a summary judgment, the Order recites that "the action is dismissed and the Clerk is ordered to enter judgment to that effect." A check of the Clerk's office this morning confirms that no judgment implementing the Order has yet been entered. Before one is, however, I wish to alert the Court to what I perceive as a potential for confusion over what is intended by Your Honor's direction that the action be dismissed. The problem stems from the fact that the Order omits reference to the pendency of various counterclaims by Nintendo against Universal, which were not before the Court on the summary judgment motion and which for that reason are still "active." Since these claims still remain to be litigated I am concerned, on behalf of plaintiff, that the form of judgment that is intended properly reflects the Court's intention as to the matter of the judgment's appealability. If Universal is to have the option of taking an appeal of its claims against Nintendo at this time, Rule 54(b) of the Fed. R. Civ. P. specifies that the Court may direct the entry of a final

EXHIBIT B

TOWNLEY & UPDIKE

judgment "only upon an express determination that there is no just reason for delay and upon express direction for the entry of judgment \* \* \*." On behalf of plaintiff, I would urge the Court to direct the entry of a judgment permitting Universal to take an immediate appeal, if it desires to do so, by providing the appropriate Rule 54(b) declaration. This would obviate any potential misunderstanding over the intent of the Court's Order - and would confirm the pendency of Nintendo's counterclaims.

I spoke to Nintendo's counsel, John Kirby, about this point yesterday, and with his concurrence I propose for your Honor's consideration the entry of a judgment in the form I have annexed to this letter.

Sincerely,

*Douglas C. Fairhurst by JDA*  
DOUGLAS C. FAIRHURST

DCF/st

Enclosure

cc: John J. Kirby, Jr., Esq.